IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO **DIVISION OF FINANCIAL MANAGEMENT** **JULY 2004 VOLUME XXVII NO. 1**

It used to be sticker shock took place only when you visited a car dealership. Now it happens every time you pull into a gas station. The 30% jump in the price of gasoline since last year has lightened everyone's wallet. It is a major contributor to the estimated 10% increase in overall energy prices this year. Higher energy prices cost consumers $42 billion last year and will drain an additional $38 billion from their pocket books this year. It is estimated rising gasoline prices will cost the average American household an additional $330 in 2004. While this is small compared to the average U.S. household income of $82,000 it will hit lower income households the hardest. The expected energy price increases should dampen, but not stop, consumer spending. This is because spending will be propped up by steady disposable income growth and improved household balance sheets.

While the surge in gasoline prices has made drivers hot under the collar, it has sent shivers down the spines of some economists. This is because prices at the pump reflect high oil prices, and bad things tend to happen when oil prices rapidly rise. Up until the early 1970s, the price of gasoline had been relatively stable. The first oil embargo put an end to that stability. Beginning in early 1973, gasoline prices began to accelerate noticeably. They continued to accelerate so that by the second quarter of 1974 the price of gasoline was nearly 42% higher on a year-over-year basis. The cumulative impact of these increases was the price of gasoline at the end of 1974 was nearly 50% higher than at the end of 1972. Gasoline prices accelerated again beginning in late 1978. After a protracted run of increases, the price of gasoline in the first quarter of 1980 was 64% higher than the previous year's level. Gasoline prices surged again beginning in late 1990 on fears Iraq's invasion of Kuwait would disrupt oil supplies. What these three episodes have in common is the surges in gasoline prices were accompanied by increases in overall inflation. In each case, the increase in overall inflation led the Federal Reserve to begin tightening and this caused the U.S. economy to slip into a recession.

Given the past association between rising gasoline prices and economic hardships, one can understand why the current round of increases revived painful memories. The good news is the links in the chain connecting gasoline price to a recession may be broken. There are a couple of reasons for this conclusion. First, energy is not as big a part of the economy as it used to be. Specifically, the U.S. economy is 50% more energy efficient than it was in 1981 and twice as efficient as it was in 1974. Second, believe it or not, the recent rise in energy prices does not come close to previous price run-ups. For example, although the price of oil has increased 45% recently, this is small compared to the nearly 100% increase in 1981. So, despite the run up in energy prices, a recession in the near future is not likely.

Interestingly, most countries in Asia-Pacific are much more vulnerable to oil price spikes. This region absorbs more than half the world's oil trade and accounts for the bulk of the increases in global oil consumption. To make matters worse, Asia vulnerability to oil price shocks is accentuated by the region's high oil demand-to-GDP ratio and dependence on exports. The ratios for many of the countries in this region were well above the global average of 2.3%. For example, China and India are both above 4%. Thailand, Pakistan, Indonesia, Myanmar, Malaysia, and Vietnam are all above 5%. Being so dependent on export trade makes these countries vulnerable to oil-price induced slow downs in other countries.

The price for the region's extra energy bill will sum to $100 billion over the next two and one-half years. This is less than 0.5% of its GDP, so it should be easily affordable, given the region's huge economic wealth, vast foreign exchange assets, and rapidly rising incomes. Thus, the higher oil prices may dampen this region's economic growth, but will not derail it.

DIRK KEMPTHORNE, Governor

Division of Financial Management
700 W. Jefferson, Room 122
PO Box 83720
Boise, Idaho 83720-0032 (208) 334-3900
ADDRESS SERVICE REQUESTED

Brad Foltman, Administrator

Economic Analysis Bureau
Michael H. Ferguson, Chief Economist
Derek E. Santos, Economist

PRSRT STD
U.S. POSTAGE
PAID
PERMIT NO. 1
BOISE, ID 83720

General Fund Update

As of June 30, 2004

	$ Millions			
	FY03	**FY04 Executive Estimates**		FY04
Revenue Source	Actual	Jan. 03	Jan. 04[1]	Actual
Individual Income Tax	837.8	932.6	895.8	902.1
Corporate Income Tax	93.1	91.7	100.1	103.0
Sales Tax	700.2	705.7	884.1	886.1
Product Taxes[2]	21.8	22.7	45.3	44.6
Miscellaneous	111.0	93.7	150.9	161.3
TOTAL GENERAL FUND[3]	**1,763.9**	**1,846.4**	**2,076.2**	**2,097.1**

1 Executive estimate as adjusted for 2003 legislative action
2 Product Taxes include beer, wine, liquor, and cigarette taxes
3 May not total due to rounding

General Fund revenue continued its impressive performance in June, closing the FY 2004 fiscal year $20.9 million ahead of the Executive forecast. Slight weakness in June in the sales tax and product taxes was overwhelmed by strong gains in the individual and corporate income taxes and in miscellaneous revenues. June revenue was $17.8 million higher than expected. For the full fiscal year only the product taxes came in lower than the anticipated.

Individual income tax revenue was $8.3 million higher than expected in June. On the collection side, withholding collections were $2.2 million lower than predicted and filing payments were $2.5 million higher than predicted for the month. Refunds were $7.2 million lower than expected and miscellaneous diversions were $0.8 million lower than expected. Individual income tax collections finished the fiscal year $6.3 million higher than forecast. Filing collections were $1.9 million lower than expected for the fiscal year and withholding collections finished the year $4.3 million higher than expected. Refunds were $2.4 million lower than predicted for the fiscal year as a whole.

Corporate income tax revenue was $6.6 million ahead of target in June and finished the fiscal year $2.9 million above the Executive forecast. Filing collections in June accounted for the bulk of both the month's strength and the fiscal year's outcome. Corporate filing collections were $5.0 million higher than expected for the month and $2.1 million higher than expected for the fiscal year. Quarterly estimated payments were on target in June, but came up $2.9 million short for the fiscal year. Refunds were $1.6 million lower than expected for the month and $2.6 million lower than expected for the fiscal year.

Sales tax weakened slightly in June, coming in $0.5 million lower than expected for the month, but still managing to end the fiscal year $2.0 million higher than expected.

Product taxes were $0.4 million below the target for June, and finished the year $0.7 million light. This consists of a $1.3 million undershoot for the cigarette tax offset by $0.5 million more than forecast from the tobacco tax and $0.1 million more than forecast from the wine tax.

Miscellaneous revenues were $3.7 million higher than expected for the month of June and $10.4 million higher than forecast for the fiscal year. Most of the strength for both the month and the year came from the insurance premium tax, which was $2.3 million higher than expected in June and $6.7 million higher than forecast for the fiscal year. For the month, estate tax collections were the other source of higher-than-expected revenue, coming in $1.2 million above expectations. For the year the other sources of strength were unclaimed property ($1.9 million above the forecast) and interest earnings ($1.2 million above the forecast).